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Exporter Guide

Annual

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Report Highlights:

Renewed economic growth through 2003/2004 will provide new growth opportunities for U.S. exports of food and beverages. WTO trade liberalization and consumer demand for novelty and variety have, however, created a highly competitive environment for U.S. exporters. This puts a strong emphasis on innovative product development, superior marketing skills and a trend towards high value niche product markets.

Continued development of large-scale retail outlets and up-market food service, typified by the new Taipei 101 complex nearing completion, will favor high added value and specialty products.

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Taipei [TW1]
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Market Overview

Renewed export-led growth in 2003 and 2004 is expected to deliver substantial relief to the Taiwan food and beverages industry, which has suffered in recent years due to a combination of weak demand and low-cost Asian imports. Although industry members remain concerned with improving efficiency and cutting costs, retailers and food service outlets are exploring innovative approaches to food product development, packaging and presentation and new experiences in dining out.

1. Economic situation

Taiwan's economy is undergoing a fundamental restructuring in response to the challenges posed by the emergence of China as a global manufacturer and consumer. Much of Taiwan's own manufacturing capacity has relocated to China, while in Taiwan companies have focused on high tech production and the development of technical and industrial management skills.

Although offering sound prospects for the long term, this restructuring has restricted overall economic growth and led to difficult conditions in the domestic economy.

	2000	2001	2002
GNP: US$ billions	313.9	286.8	288.9
GNP: US$ per person	14,188	12,876	12,900
Average Disposable Income US$ per Household	28,544	25,699	N/A
Average Annual Exchange Rate NT$ to 1.00 US$	31.23	33.80	34.58
Consumer Price Index	1.26	-0.01	-0.20
Unemployment Rate	2.99	4.57	5.17
Food & Beverages Total Spend US$ billions	45.3	42.2	42.0
Economic Growth Rate %	5.9	-2.2	3.5

Source: Directorate General of Budget, Accounting and Statistics.

The return to economic growth of 3.5% in 2002 probably marks a turning point in the economy, with forecast economic growth of 3.0% in 2003, rising to 4.0% and possibly higher in 2004, as the U.S. economic recovery gathers momentum. Although this is largely driven by the export of high technology products, it will undoubtedly have a stimulating effect on all parts of the economy.

Although Taiwan has the means to maintain its competitive position in the global IT industry, it is likely to be a long haul process and vulnerable to cyclical changes in the IT industry and possible political disruptions arising from the 2004 presidential elections.

Growth in expenditures on food and beverages has similarly been limited by domestic economic conditions, with a marked decline in beverages expenditures of almost 12% in

2002. This has also been due in part to the import of low cost beverages from China and Southeast Asia.

2. Impact on sales of U.S. consumer-oriented agricultural exports

The sluggish growth in consumer expenditures resulting from a consumer trend toward reduced dining out and retail purchase expenditures dampened over the past two years demand for traditional U.S. food exports to Taiwan (high quality beef and fresh fruit were particularly hard hit). We are now seeing signs of recovery as economic growth gathers momentum, although price competition from other sources is likely to remain strong as a result of trade liberalization. U.S. exporters will therefore be under pressure to maintain market share through superior product development and marketing skills.

New opportunities within these and other sectors will tend to be in innovative products and marketing presentation that capture the Taiwanese consumers' taste for product novelty, fashion and new dining experiences. The emphasis for U.S. exporters will increasingly be on identifying and rapidly exploiting new niche markets where uniqueness, high quality and fashionable appeal are critical success factors.

At the same time, in many traditional snack food and processed food categories, food and beverages manufacturers, including major U.S. manufacturers, now process many items in Taiwan and other parts of Southeast Asia for distribution within the region. 'Oreo' and 'Ritz' snacks, for example, are imported into Taiwan from the Nabisco manufacturing plant in Indonesia. This trend has been encouraged by the accession of Taiwan and China to the World Trade Organization at the beginning of 2002 and the progressive lifting of Taiwan's ban on direct imports of many processed foods from China.

We are therefore likely to see a degree of restructuring in U.S.-origin food and beverages exports to Taiwan with much of the new growth in innovative products, specialty items and niche markets rather than the mass market of standardized snack and processed foods. This development will put increasing emphasis on market knowledge and awareness.

Taiwan's total imports of consumer food and beverages has remained fairly static at about US$4.7 billion over the period 2000-2002, while exports of U.S. consumer-oriented agricultural products to Taiwan have fallen by 22% from US$569.9 million in 2000 to US$444.2 in 2002. Exports of U.S. edible fish and seafood products to Taiwan have fallen even more sharply, from US$44.0 million in 2000 to US$30.6 million in 2002.

3. Demographics

The demographics of Taiwan have changed very little in recent years. The population is stable at 22.5 million and concentrated in the urban, industrial areas along the west coast, from Taipei and Taoyuan in the north through to Hsinchu, Taichung, Tainan and Kaohsiung in the south. Although there is economic pressure in favor of economies of scale, the development of large-scale retail outlets and distribution requires long lead times to overcome the issues of over-crowding.

Taiwan can be described in broad terms as a fairly homogenous population of ethnic Chinese consumers with similar tastes, expectations, and consumption drivers. Taiwan has no significant immigrant groups and limited inbound tourism.

Consumer Demographics			
	1997	2001	2002
Female Labor Force Participation %	45.6	46.1	46.6
Birth Rate per 1000	1.5	1.2	1.1
Index of Aging	35.7	42.3	44.2
Average Space per household, square feet	1,404	1,476	N/A
Average Disposable Income per household (Adjusted for inflation) US$	29,629	25,240	N/A
Consumption Expenditure per household	22,138	19,464	N/A
Household Consumption of Food, Beverage, and Tobacco as % of total consumption	25.7	24.3	N/A

Source: Directorate General of Budget, Accounting and Statistics.

There exist, however, two long-term trends that will impact future food and beverages demand.

- The birth rate is falling and people are living longer. This means less demand for infant formula and baby foods and more demand for healthy foods and nutrients. These are probably long term structural developments arising from more women in the workforce, more divorces and smaller families, improved diet and better health care.

- The great majority of people live in apartments and new high-rise apartments with elevators are getting a little bigger in floor-space. This means more room for food storage, cooking and home entertainment, although we do not expect this to have a major impact on Taiwanese consumer habits to eat out and shop frequently and in small quantities.

These trends will favor Taiwan's attraction to U.S. lifestyle, with its emphasis on space, leisure and personal enjoyment. This trend began with McDonald's, a U.S. experience in low cost fast food for youngsters, and has been continued with Starbucks, a U.S. experience in sipping rare coffees in elegant surroundings for the young and affluent. A U.S. format for fine dining as the economy develops, undoubtedly presents a future opportunity.

Advantages & Challenges	
Advantages	**Challenges**
U.S. high quality beef and fresh fruit	Price competition from Asia and Australia
Advanced U.S. technology in frozen food	Low cost food processing in S.E. Asia
Strong attraction to novelty and fashion in food product and food service.	Emphasis on variety and price
U.S. specialty products and innovative product development and marketing.	Diseconomies in distribution.
Admiration of U.S. lifestyle in foodservice and retail.	Strong Japanese, Korean and other Asian cultural influences
Strong ties with the U.S. IT industry has some carry over into food and beverages	

Exporter Business Tips

1. Appointment of Import Agents

Except for major exporters with their own offices in Taiwan, the appointment of an effective import agent is a critical decision. Background research with assistance from the Agricultural Trade Office, the U.S. Trade Co-operators and others willing to share experience cannot be over-emphasized.

Although factors will vary from case to case, key issues to be considered include:

- The extent of the agent's network of distributors, owned or leased storage capacity and owned or leased transport arrangements. In particular, does the agent have strong contacts with the responsible purchasing officers in the target sales channels?
- Does the agent have a high proportion of direct-to-market channels or is he heavily dependent on multiple distribution levels.
- Is the agent developing added-value communications and promotions or is he dependent on price discounts as the major sales tool.
- Does the agent have complementary product lines? Although cases vary, exclusivity can provide a better incentive to the agent and can help the exporter to maintain improved supervision over price and product integrity.

2. Sales and marketing

Although sales and marketing techniques in Taiwan are in a process of evolution and development, there remains a high reliance on price discounts in promotion strategies. To minimize reliance on discounting strategies, U.S. food and beverage suppliers, particularly those higher added value categories, may benefit from a focus on market education and sales training to develop brand recognition (demand-pull) and consumer preference.

Consumer concern for their personal health as well as the health of immediate family members (children and parents), mean that foods and beverages believed to provide specific health or nutritional benefits can and often do earn a retail premium above what the market might normally bear. Taiwanese consumers tend to be less concerned about cost when shopping for products they believe provide such benefits and may alter purchasing habits and behavior in order to include such foods or beverages in their diet. Fresh fruit, dried berries, fruit juices, yogurt, fresh baked breads, and a wide range of nutritional supplements are just a few examples of product categories for which marketing strategies founded in nutritional and health messages have proven highly successful.

U.S. companies are, however, advised to keep in mind the strict product labeling requirements enforced in Taiwan, which require that any health or nutritional claim be first assessed and approved by the Taiwan Department of Health (DOH) prior to inclusion on product packaging. For more information regarding DOH labeling requirements, please refer to the USDA FAIRS Report on Registration of Health Foods and Health Claims (2003) at website: http://www.fas.usda.gov/gainfiles/200301/145785192.pdf

3. Taiwan Business Customs

Taiwanese businessmen are often refreshingly direct and informal in their business approach and do not have the business rituals associated with, for example, Japan. Nonetheless, there are some local customs that are well worth observing, for example, greetings and gifts to mark the major festivals such as the Mid-Autumn Moon Festival and the Chinese New Year.

Although agents and purchasing managers are always searching for new products, they are also very thorough in their evaluation. They like to see product samples whenever possible and will often place small initial shipments to test the market response.

4. Bureaucratic Burden

Although food standards and regulations and general import and inspection procedures are duly written up, implementation and compliance can occasionally be a source of frustration. The documentation requirements are split between various ministries and the officials dealing with food and beverages regulations are not always familiar with international standards and practices. There have been improvements since Taiwan's accession to the World Trade Organization in January 2002. Please refer to Post's Food and Agricultural Import Regulations and Standards (FAIRS) report, TW3027, available on the FAS website www.fas.usda.gov.

Although agents can take care of many of these issues, they occasionally require patience and understanding on the part of the exporter. The problems are usually ones of misunderstanding or inconsistent application of procedures and can be readily resolved.

5. Due Diligence

Although Taiwan purchasers have a high reputation for contract performance, consolidation and financial pressures within the industry make it important to maintain normal due diligence on contracts and payment procedures. As always, foreign exchange fluctuations need to be guarded against.

Market Sector Structure and Trends

1. Market Size

In 2002, total expenditures at current prices were US$37.2 billion on food and US$4.8 billion on beverages, making a total market size of US$42 billion.

This closely correlates with food and beverages industry revenue figures for 2001, the latest year available.

Food and Beverage Revenue 2001		
	US$ billions	%
Manufacture	13.9	33.7
Wholesale *	10.6	25.7
Retail	8.9	21.5
Food Service	7.9	19.1
Total	41.3	100.0

** The wholesale figure does not includes US$4.9 billion of 'Agricultural, Husbandry and Aquatic Products', most of which went to manufacturing.*

Source: Directorate General of Budget, Accounting and Statistics

After reaching real growth rates in N.T. (New Taiwan) dollar terms of 5% to 6% in the late 1990s, growth in food expenditures fell by 4.3% in 2000, 2.3% in 2001 and 2.9% in 2002. Our industry sources are optimistic that recovery in the overall economy will see renewed growth in the food industry, although they do not anticipate a return to the high growth rates of the 1990s. In the medium term, our industry sources indicate overall growth in food expenditures will probably be about 3% a year over the next three years.

Growth in the beverages industry has been less robust in the economic downturn. After a period of sustained high growth through most of the 1990s, growth fell to 1.3% in 1999, followed by 2.8% in 2000, 0% in 2001 and –11.9% in 2002. The sharp decline in 2002 is partly due to the increase in imports of alcoholic and non-alcoholic beverages from low cost S.E. Asian producers and the outbreak of price wars within the industry.

2. Manufacturing

In terms of production, two major players are significantly larger than the rest. The Uni-President Group, with total 2002 revenues of about US$1.0 billion, owns significant production and retail channel assets both in Taiwan and in the Southeast Asia and China regions. Uni-President is involved in the production and sale of a wide range of food and beverage products. The state-financed Taiwan Tobacco and Liquor Corporation (TTLC), with total 2002 revenues of US$1.9 billion, is the former Taiwan alcohol and tobacco monopoly. It remains largely focused on the importation, production, and sale of alcoholic beverages and tobacco products.

Uni-President is not only the dominant player in food and non-alcoholic beverages processing but is also the local partner for the 7/11 convenience store franchise, the Carrefour hypermarkets and Starbucks coffee shops as well as an investor in shopping mall development. TTLC, on the other hand, continues to have an effective monopoly of liquor, wine, beer and tobacco products production in Taiwan and through that that a very strong position in distribution. However, the legal monopoly on beer, liquor, wine and tobacco production ended with WTO accession and competitors are starting to emerge.

Aside from the two majors and a dozen or so mid-sized manufacturers, including Chia Hsin and Wei-chuan (each with 2002 revenues of around US$280 million) and Hey Song (the largest domestic soft drinks producer with 2002 revenues of US$108 million), food and beverage manufacturers in Taiwan are predominantly small-scale enterprises. Although there has been a degree of vertical integration in the mid-sized manufacturers, the smaller enterprises remain dependent on agents for both purchases of raw materials and sales of product.

Food & Beverages Manufacturing Industry 2001				
	No. of Enterprises	Ave. No. of Employees	Revenues US$ millions	Gross Profit %
Total Manufacturing	6,079	20.4	13,933.8	3.0
Dairy Produce	100	130.2	2,081.2	5.1
Canned, Frozen, Dehydrated, Preserved Food	877	27.1	2,251.1	-2.7
Sugar Confectionery & Bakeries	695	20.7	1,166.2	4.6
Seasoning	382	16.5	695.3	5.0
Beverages	223	39.8	1,440.2	12.8
Slaughtering	38	55.6	231.7	1.7
Edible Oil, Flour, Milling & Grain Husking	1,325	12.1	1,660.7	0.8
Sugar Manufacturing	69	115.8	1,283.2	-3.4
Other Food	2,370	13.3	3,124.2	3.9

Source: Directorate General of Budget, Accounting and Statistics

The relatively high profitability for the beverages industry in 2001 reflects the monopoly profits of the state-owned TTLC, which had about 70% of the domestic beer market. Since then, however, TTLC has come under pressure from beers imported from China, following the lifting of Taiwan's direct import ban at the beginning of 2002. These include beers from U.S. and other international brewers in China, as well as Tsingtao and other domestic China brewers.

Although this trend toward declining prices and declining profits has undercut some of the incentive for U.S. brewers to enter the Taiwan beer market when the government ends its support of the TTLC over the next two years (as it is committed to under World Trade

Organization (WTO) obligations), there remains opportunities for micro-breweries in Taiwan that target premium, niche markets with a high-quality, domestically brewed product.

Although the food manufacturing industry has started to recover in 2002, profit margins have remained slim. Wei-chuan Foods, one of mid-tier food manufacturers, has reported gross profit of 0.6%, Standard Foods reported 4.9% and Lien Hwa Foods 2.4%. One of the best performers was I-Lan Foods, with reported 2002 gross profit of 9.5%. Beverages producers have generally done better, with Hey Song reporting gross profit of 9.2%.

Although it is a situation that may offer prospects for merger and acquisition, there are still many barriers in Taiwan to such industry consolidation. For some of these companies, the reaction has been to diversify into new businesses and/or to seek opportunities in China, Vietnam and other parts of Southeast Asia. For U.S. exporters, therefore, some of the larger Taiwan food manufacturers, whose management remains in Taiwan, offer broader opportunities throughout the region.

The choice between the two domestic giants, Uni-President and TTLC, the mid-sized companies and the large number of small manufacturing enterprises thus offers a wide range of prospects for U.S. exporters looking for a manufacturing partner both inside and outside of Taiwan itself.

3. Distribution and Retail

The wholesale and retail trades continue to be dominated by very small enterprises, the so-called 'Mom and Pop' distributors and retailers. Even in the case of the retail franchises, such as 7/11, the store operator is often an individual family.

Distribution Industry Structure 2001				
	No. of Enterprises	Ave. No. of Employees	Revenues US$ millions	Gross Profit %
Wholesale Food & Groceries	9,890	6.4	10,590.3	4.8
Retail Food & Groceries	58,845	1.9	5,878.2	9.1
Retail Agriculture, Husbandry & Aquatic	39,537	1.7	2,957.5	10.4

Source: Directorate General of Budget, Accounting and Statistics.

There is a great deal of pressure on the wholesale distributors from manufacturers and importers who are looking for more direct supply chains to the retail outlets. For many in the industry, eliminating layers of wholesale distributors is one of the main ways to find cost-cutting efficiencies.

Although there has certainly been a trend in the retail sector towards large-scale outlets, the pace of this 'channel revolution' has been constrained by a combination of the economic slowdown, demographics, topography and detailed property zoning and building use restrictions. The population in Taiwan is 78% urban and with a high population density. Most people live in small apartments located on narrow urban streets and residential and commercial properties tend to be mixed together. This makes it difficult to develop locations for large-scale outlets and much of the hypermarket and supermarket activity has, indeed, been by Japanese and European store operators, who are more used to this lack of space than their U.S. counterparts.

Nonetheless, developers have persevered and a number of shopping malls have been developed in Taipei and other major cities, sometimes expanding existing department stores. To these will shortly be added 'Taipei 101', a new retail complex in central Taipei, which includes a 101-storey tower and is designed to bring international retail standards to Taiwan.

Within the shopping malls, the main impetus in food and beverages is towards high value, specialty items, including delicatessens, confectionery, specialty cakes, food and beverages gift items and liquor. Supermarkets are also being tried in the shopping malls, although it is more difficult to achieve sufficient revenues and economies of scale to justify the high property rentals.

Hypermarkets, including Carrefour, Costco, Tesco, and RT Mart, have continued to expand, despite the economic downturn and are a very significant outlet for major food and beverages items which are bulky and/or high added value, including frozen foods, processed foods and beverages.

The introduction of shopping malls and hypermarkets has had a strong influence on both purchasing behavior and consumer habits. Most Taiwanese shopping is done after 4 p.m. and the shopping malls provide an opportunity for both shopping and evening leisure activity in a fashionable atmosphere. Hypermarkets, on the other hand, have encouraged the trend towards a weekly shop for major food and beverages items, often combined with clothing, consumer durables and consumer electronics.

Although different in detailed design from their U.S. counterparts, these large-scale retail outlets provide more of a U.S. style shopping experience which, together with their savings in scale and supply chain logistics, are ultimately favorable to high quality and high added-value food products.

Distribution channel				
	2002	2003	Growth	Growth Rate
Large Scale Retail	7606	8115	509	6.69%
Shopping Mall	10	12	2	20.00%
Department Store	156	154	-2	-1.28%
Hypermarket	103	113	10	9.71%
Supermarket	764	861	97	12.70%
CVS	6573	6975	420	6.39%

Retail special for Food				
	2002	2003	Growth	Growth Rate
Other Retail	14417	14464	47	0.33%
Food Retail	2891	2904	13	0.45%

Source: Directorate General of Budget, Accounting and Statistics.

Although supermarkets have to some extent been squeezed between shopping malls and hypermarkets on one side and convenience stores on the other, they remain a major food and beverages outlet, offering a full range of products. The major supermarket chain is Wellcome, with about 110 outlets.

Although convenience chain stores remain a strong outlet for beverages, instant food and snacks, aimed mainly at the younger population, they have begun to look increasingly for non-food convenience items, including courier services. There is also a trend to larger package sizes to increase the product value on the shelf. For non-chain neighborhood stores, the formula has changed very little with the emphasis on low priced items, packed to the ceiling.

Neighborhood specialty shops, especially bakeries and confectionery shops, have become increasingly popular by improving the quality and range of product, with a stronger emphasis on novelty items.

Although retail stores provide the major sales channels, about one third of food retail is through the traditional wet markets, offering fresh produce and fish. The wet markets are holding up much better than expected because of their low overheads and ready availability in most neighborhoods of Taiwan's major cities. For U.S. exporters of beef, fresh fruit and vegetables and edible fisheries, these remain an important retail outlet.

4. Food Service

Dining out is probably the major national pastime in Taiwan. The high propensity to dine out is driven by a combination of factors:

- Small size of apartments.
- High female participation in the labor force.
- A high level of disposable income
- Restaurant availability.

Although there are almost 60,000 registered eating-places, there is probably another 20% or more of street vendors, street food stalls and night market food stalls that are not officially recorded. Few people have to step far outside their apartment to find a selection of places to eat. In the food service industry as a whole, it is again characterized by a great many small enterprises.

Food Service Industry 2001

	No. of Enterprises	Ave. No. of Employees	Revenues US$ billions	Gross Profit
Total	58,494	3.3	7.9	7.6%
Restaurants	47,440	3.5	6.8	7.3%
Coffee/Tea Shops & Bars	9,285	2.5	0.9	9.6%
Others	1,769	3.3	0.2	9.4%

Restaurants can be broadly divided into three tiers.

Tier I: Low Price Eateries.

At the low end of the market, are a large number of street vendors, night market stalls and unenclosed eating places that frequently spill out onto the sidewalk, offering cheap on-site and take-away breakfasts, lunch, including lunch boxes, dinner and after-midnight snacks.

Although these different eateries tend to specialize in particular foods and beverages, overall they offer a 7/24 fast food service of variety and low cost to meet the daily dining out needs of office workers, shoppers and students. Many use disposable packaging and the standards of hygiene are remarkably high, despite the unpromising surroundings. Any beverages offered are usually tea and traditional soft drinks. Dining out for breakfast, lunch boxes and after-midnight snacks are particular Taiwanese characteristics and the cuisine for these is almost always Chinese.

Tier II: Mid-range Restaurants.

The middle range of restaurants are enclosed, but still offering a basic standard of food service in which the emphasis is on the variety of dishes and fast delivery of food. Although these are mainly Chinese, western-style restaurants have made a significant penetration at this level.

- Traditional western style fast food restaurants, including McDonald's, Kentucky Fried Chicken, Burger King and Pizza Hut.

- New fashionable western 'coffee shop' style restaurants that offer a basic set meal of soup/salad, main course of steak, chicken, pork or fish and a cake/ice cream desert have become popular lunch and dinner venues with younger office workers.

Beverages may include a help-yourself selection of beer, fruit juices and traditional soft drinks.

Tier III: Fine dining.

There is a very wide range of high-end restaurants. These include traditional Chinese restaurants with menus containing more expensive dishes delivered either by course or by combination 'banquet' style, with table and restaurant décor and reception and table service. Beer, spirits, including cognac, whisky and sake and local rice wine, and soft drinks are usually available and possibly a small selection of wine. In these restaurants, it is not unusual for business and family groups to make reservation in tables of ten and twelve and to order spirits by the bottle.

Western-style fine dining restaurants are found in most of the international hotels and there is a small number of western-style fine dining restaurants near the main business areas. Although the economic slowdown and the reduction in business travel, because of international terrorist activity and the recent outbreak of Severe Acute Respiratory Syndrome (SARS), have restrained growth in western-style fine dining, renewed economic growth and the advent of improved central urban facilities such as Taipei 101 will undoubtedly lead to new opportunities in the fine dining category. This is likely to include U.S. style steak houses and lobster specialty restaurants

U.S. chain restaurants have already achieved considerable success as a life-style choice for targeted groups. McDonald's has achieved large success through the novelty of serving beef in a bun delivered in a store format that offered a U.S. lifestyle experience to youngsters. Similarly, Starbucks has become very popular in Taiwan with young office workers wanting a change of scene and a fashion statement as well as a novelty cup of coffee. At the higher end, fine dining steak houses have not yet been as successful with the older age groups, where the U.S. lifestyle attraction is probably not as strong, but industry sources believe will be successful with younger, affluent age groups.

Although we should emphasize that over 75% of the restaurants in Taiwan are independent family owners and predominantly Chinese, we have focused attention on the 25% of food service outlets that are chain stores or franchises and probably of most interest to U.S. exporters.

Chain & Franchise Instant Food

		2002	2003	Growth	Growth Rate
Total		8534	10926	2392	27.48%
	Western Instant Food (burger, Fried Chicken)	684	759	75	10.96%
	Western Instant Food (Pizza)	403	153	-250	-62.03%
	Japanese Instant Food	108	169	61	56.48%
	Chinese Instant Food	587	375	-212	-36.12%
	Breakfast restaurant	6752	9423	2671	39.56%

Source: Taiwan Chain Stores and Franchise Association (TCFA).

In the chain fast food service segment, Japanese fast food, which serve mainly Japanese-style lunch boxes, and 'Breakfast restaurants', which serve both on-site and take-away Chinese pancakes, dumplings and western-style sandwiches to people on their way to work, have shown the most rapid growth.

Western-style fast food chains remain very popular, although there has been a sharp decline in pizza chains. Chinese fast food chains, which primarily serve chicken pieces, have also declined.

Among the restaurant chains, fashionable Chinese Tea Restaurants, offering a selection of small dishes in the Chinese dim sum style, Japanese, Korean and Thai restaurants have shown strong growth.

Chain and Franchise Restaurants					
		2002	2003	Growth	Growth Rate
Total		524	569	45	8.59%
	Chinese Tea Restaurant	25	46	21	84.00%
	Western Restaurant	86	90	4	4.65%
	Steak house	251	280	29	11.55%
	Thai Restaurant	14	21	7	50.00%
	Japanese/ Korea Restaurant	32	56	24	75.00%
	Chinese Restaurant	43	47	4	9.30%
	Hot-pot Restaurant	73	29	-44	-60.27%

Source: TCFA

Steakhouses remain very popular and include a number of western-style steakhouses, including Sizzler in the mid-tier and Ruth Chris in fine dining as well as Chinese-style steak houses.

Among the other chain and franchise outlets, the Starbucks-led fashion for coffee shops appears to be nearing its peak. This has been one of the most recent major successes for U.S. foodservice franchises, aimed at young affluent office workers, looking for a different 'lifestyle' choice and willing to pay premium prices for the experience.

Chain and Franchise Other Outlets.					
		2002	2003	Growth	Growth Rate
	Street vendor	1812	2252	440	24.28%
	Coffee shop	619	682	63	10.18%
	Beverages shop	3558	2504	-1054	-29.62%
	Others	0	454	454	NA

Source: TCFA.

On-site beverage outlets in Taiwan cover a wide array of pubs, clubs and karaoke bars which are a major alcoholic beverage outlet. There is a high premium on novelty. Corona beer drunk from the bottle over a slice of lemon and Smirnoff Ice have both attracted a following.

A new chain of soft drinks, offering a range of fruit juices and novelty drinks such as 'pearl milk tea', has also become very popular.

5. Impact on U.S. Exports of Consumer-oriented Foods and Beverages

The United States continues to retain a high share of the Taiwan import market for fresh meat and offal and fresh fruit and a significant market share for fish and seafood and fats and oils.

Taiwan Consumer-Oriented Food & Beverage Total Imports					
	US$ millions				
	2000	2001	2002	2002 from US	%
Fresh Meat & Offal	313.3	241.3	304.0	95.8	31.5%
Fish & Seafood	347.4	263.7	269.6	30.4	11.3%
Dairy Produce	213.0	219.9	188.0	8.4	4.5%
Fresh Fruit & Nuts	306.4	266.2	291.9	141.3	48.4%
Fats & Oils	166.4	132.7	161.5	25.8	16.0%
Prepared Meat & Fish	50.7	41.4	38.2	2.1	5.5%
Sugar & sugar confectionery	140.4	156.6	144.9	5.2	3.6%
Bakeries	243.8	253.9	269.6	13.7	5.1%
Beverage	368.5	281.2	319.9	23.7	7.4%

Source: Department of Statistics, Ministry of Finance.

A more detailed breakdown of U.S. consumer-oriented foods and beverages exports to Taiwan is shown in the U.S. BICO reports.

U.S. Export of Consumer-Oriented Agricultural Products to Taiwan					
	US$ '000s				
	1998	1999	2000	2001	2002
Total:	514,433	543,046	569,905	482,311	444,216
Snacks (ex. nuts)	28,477	36,959	31,915	25,949	24,425
Red meats (FR/CH/FR)	53,723	91,344	99,145	62,021	79,596
Poultry meat	7,832	19,691	20,663	15,082	24,406
Dairy products	59,653	43,602	42,685	37,549	22,842
Fresh fruit	155,859	164,712	175,749	158,220	114,268
Fresh Vegetables	16,092	16,970	21,759	26,962	19,581
Processed Fruit & Vegetables	70,893	59,532	59,990	52,660	56,698
Wine & Beer	37,703	25,095	22,976	20,071	19,162
Others	84,201	85,141	95,023	83,797	83,238

Source: http://www.fas.usda.gov

Although there has been a significant decline in total consumer-oriented agricultural products since the recent millennium peak, the main issues are to what extent this represents cyclical economic issues and to what extent it reflects structural changes in the pattern of Taiwan's imported food and beverages.

The two major categories of U.S. consumer-oriented agricultural products are fresh fruit and fresh, chilled and frozen beef, which together account for over 40% of the total.

U.S. exports to Taiwan of fresh fruit are probably facing the strongest challenge from other sources. Although Taiwan is, for example, the world's largest importer of apples, at about 6 million boxes (250 million pounds), the U.S. market share has stayed relatively static during the last three years at about 50%, largely because the market has been opened up to other countries, notably Korea and Japan. Although there are differing views on timing, there is also some concern among U.S. apple exporters that their market in Taiwan will eventually be vulnerable to the opening up of apples imports from China.

Thus, while the decline in U.S. fresh fruits exports is partly due to cyclical economic difficulties in Taiwan, and can be expected to recover with the overall economy, they are increasingly subject to strong competition from both other temperate supplies and Asian sources, as a result of the trade liberalization that received its most recent impetus from Taiwan's accession to the World Trade Organization.

In order to meet this competitive threat and to maintain their market share, U.S. exporters will need to develop new product and promotion strategies that leverage the high quality of U.S. fresh fruit and justify a premium price.

U.S. exporters are also responding with the introduction of new-to-market categories of fruits, including cherries, grapes, strawberries and blueberries and other niche fruits, which are also popular gift items.

Similarly, we can expect to see a cyclical recovery in the demand for beef and increased opportunities for high quality beef in fine dining and hotel restaurants, although there will continue to be a strong competitive threat from Australia and other producers, following the opening up of the beef market. Again there will be strong competitive pressure on U.S. beef exporters to continue to differentiate the U.S. product with new variety meats and innovative ways of product marketing.

Although poultry meat, especially dark meat and offal, is a smaller export category, it has enjoyed consistent growth. The progressive lifting of Tariff Rate Quotas (TRQ) has been facilitated by advanced U.S. technology in frozen food preparation and has been largely driven by the demand for offal and chicken and turkey pieces in a large range of food service outlets, including take-out stores for snack and home consumption and the many instant food outlets for quick snacks and lunches as well as in food processing.

Exports of U.S. fresh vegetables have also succeeded in keeping market niches. Exports of fresh potatoes have received a boost from the lifting of WTO restrictions and are proving a popular item in Taiwan. On the other hand, the popularity of more expensive U.S. asparagus is on the decline with low cost competition from Thailand. These are niche market opportunities driven by changing fashions and the occasional natural disasters in Taiwan of floods and typhoons.

In addition to the main product ranges, there are large number of emerging new-to-market products that take advantage of U.S. technology as well as quality. These include:

- Dried and frozen fruit with new flavors such as blueberry, raspberry and cranberry which are popular both as snack foods and gift items as well as applications as ingredients in food processing.

- Food ingredients as a whole cover a wide range of products, including dairy products such as whey and cheese, as well as other new-to-market products like dehydrated potatoes.

- New western-style health foods, including nutrients and vitamin foods have become increasingly popular with the spread of U.S. style fitness centers such as Hollywood and associated fit-and-healthy life styles.

- The U.S. has established market leadership in pet foods for tropical fish, birds and fashionable dogs.

Although these new niche products are unlikely to achieve large-scale volume, they nonetheless offer good profitable market opportunities.

In other traditional categories of snack foods, dairy foods, processed fruits and vegetables, wine and beer, there have been significant declines in market share because of more competitive processors both in Europe and Australia and New Zealand and, increasingly Asia itself. In these categories, export opportunities will be very much in niche areas and specialty products that are uniquely American, such as Jack Daniels whiskey and Californian wines, or have the advantage of novelty or high technology.

Among U.S. exports of edible fish and seafood products, there has also been an overall decline in imports as Taiwan and other Asian countries have developed their own seafood production and the emphasis for U.S. exporters is again moving towards high quality, specialty items such as crabs, lobster and abalone.

U.S. Export of Edible Fish & Seafood Products to Taiwan					
					US$ millions
	1998	1999	2000	2001	2002
Total:	40,145	38,382	44,043	27,863	30,633
Salmon, whole or eviscerated	761	1,594	671	917	1,420
Roe & Urchin (fish eggs)	8,946	11,959	12,332	8,062	10,358
Others	30,438	24,829	31,040	18,884	18,855

Overall, renewed economic growth in Taiwan will see some recovery in U.S. exports of consumer-oriented food and beverages in both the major categories of fresh and frozen foods and the specialty, niche markets. Some of the more standardized processed foods will increasingly be manufactured either in Taiwan or in low cost Asian countries. U.S. exporters in all categories will face strong competitive challenges from other sources, both temperate and Asian as a result of trade liberalization. The U.S. exporter, and their Taiwan importer, will probably have to work harder for their retail dollar.

Although strictly outside of the scope of this report, we believe there will be opportunities for investment in Taiwan in microbreweries to offset the flood of packaged beers and in higher-end fine dining restaurants.

Best High Value Product Prospects

Product Category	2002 Market Size	2002 Imports	Import Growth Potential	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness For USA
Beef (tons)	76,500	71,271	Medium	NT$15 - 24 per kg. Vary by item	Competition from Australia	Renewed economic growth. Canadian beef restricted by BSE
Poultry (tons)	739,000	27,000	High	TRQ until 2005	Consumer taste concerns.	High price for dark meat & offal.
Total Fresh Fruit (US$)	1.9 billion	242.1 million	Medium	Varies	Competition from Asia	Quality market. Sole supplier some categories.
Cherries (tons)	15,000	8,486	Medium	7.5%	Expensive	Premium price, gift items
Grapes (tons)	50,000	20,346	High	20%		Premium price, gift items.
Blueberries (tons)	N/A	24	High	7.5%		Novelty, few competitors
Dried & Frozen Fruit (US$)	11.6 million	10.0 million	High			New snack and ingredient flavors.
Potatoes (tons)	N/A	534	Medium	20%	Strong competition.	WTO limits lifted. Taiwan drought.
Health Foods (US$)	N/A	4.o million	Medium	30%		Reduction of tariff rate (from 50%-30%). Awareness of health food.
Food Ingredients.			Medium		Requires product knowledge.	Market wants new flavors. Mainly processing e.g., whey, dehydrated potatoes, but also food service e.g., cheese.
Edible seafood (US$)	1.9 billion	308.0 million	Medium		Strong competition	Premium prices for high quality specialties e.g. lobster, crab, fish roe.
Pet Foods (US$)	49.0 million	36.0 million	Medium		Some health bans.	U.S. market leader.
Micro-Brewery	N/A	N/A	N/A	N/A	Strong domestic competition	Liberalization of brewing, high quality, niche beers
Fine dining chain restaurant e.g., steaks & lobster	N/A	N/A	N/A	N/A	Dependent on economic growth	Demand for fine dining U.S. style

Key Contact and Further Information

American Institute in Taiwan.

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Address	Room 704, 7F, 136 Renai Road, Section 3, Taipei, Taiwan
Telephone	(886-2) 2705-6536; Fax: (886-2) 2706-4885
E-mail	ato@mail.ait.org.tw
Internet Homepage	http://ait.org.tw/ait/AGRI/ato_portal.htm

Organization Name	United States Department of Agriculture
Department	Foreign Agricultural Services
Address	U.S. Department of Agriculture, Washington, D.C. 20250
Telephone	
E-mail	info@fas.usda.gov
Internet Homepage	www.fas.usda.gov

Taiwan Central Authority Agencies

Organization Name	Bureau of Standards, Metrology & Inspection (MSMI)
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Contact Person	Neng-jong Lin, Director General
E-mail	nengjong@mail.ait.org.tw
Internet Homepage	http://www.bsmi.gov.tw

Organization Name	Council of Agriculture, Executive Yuan
Address	No. 37, Nanhai Road, Taipei, Taiwan
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E-mail	coa@mail.coa.gov.tw
Internet Homepage	http://www.coa.gov.tw

Organization Name	Bureau of Animal & Plant Health Inspection & Quarantine (BAPHIQ)
Address	9 Fl., No. 51, Chungching S. Rd, Sec. 2., Taipei, Taiwan
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Internet Homepage	http://www.baphiq.gov.tw

Organization Name	Department of Health (DOH)
Department	Bureau of Food Sanitation
Address	No. 100 Aikuo E. Road., Taipei, Taiwan
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Organization Name	Directorate General of Customs, Ministry of Finance (MOF)
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Organization Name	Food Industry Research and Development Institute
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Internet Homepage	http://www.firdi.gov.tw

Organization Name	Bureau of Foreign Trade (BOFT), Ministry of Economic Affairs
Address	No. 1, Hukou Street, Taipei, Taiwan
Telephone	(886-2) 2351-0271; Fax: (886-2) 2351-3603
E-mail	boft@trade.gov.tw
Internet Homepage	http://www.trade.gov.tw

Major Taiwan Trade Associations

Organization Name	Taiwan Chain Stores and Franchise Association (TCFA)
Address	7F, 197 Nanking E. Road, Section 4, Taipei, Taiwan
Telephone	(886-2) 2712-1250; Fax: (886-2) 2717-7997
E-mail	tcfa@@tcfa.org.tw
Internet Homepage	http://www.tafa.org.tw

Organization Name	China External Trade Development Council (CETRA)
Address	333 Keelung Road, Sec. 1, Taipei Taiwan
Telephone	(886-4) 2725-5200; Fax: (886-2) 2757-6443
E-mail	cetra@cetra.org.tw
Internet Homepage	www.taiwantrade.com.tw

Organization Name	Importers and Exporters Association of Taipei (IEAT)
Address	No. 350, Sungkiang Road, Taipei, Taiwan
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Internet Homepage	http://www.ieatpe.org.tw

Statistics

Table A. Key Trade & Demographic Information	
Agricultural Imports From All Countries (US$Mil) / US Market Share (%)	7,079/34%
Consumer Food Imports From All Countries (US$Mil) / US Market Share (%)	
Edible Fishery Imports From All Countries (US$Mil) / US Market Share (%)	
Total Population (Millions) / Annual Growth Rate (%)	22.5/0.5
Urban Population (Millions) / Annual Growth Rate (%)	17.6/0.6
Number of Major Metropolitan Areas	7
Size of the Middle Class (Millions) / Growth Rate (%)	13.5/0.6
Per Capita GDP (U.S Dollars)	12,900
Unemployment Rate (%)	5.17
Per Capital Food Expenditures (U.S. Dollars)	1,867
Percent of Female Population Employed	46.6%
Exchange Rate (US$1=X.X local currency)	34.58

Table B. Consumer Food & Edible Fishery Product Imports									
Taiwan Imports (US$Million)	Imports from the World			Imports from the U.S.			U.S. Market Share		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
CONSUMER-ORIENTED AGRICULTURAL TOTAL	46	1,015	678	577	530	465	31%	52%	68%
Snack Foods (Excl. Nuts)	88	49	27	12	14	11	14%	29%	42%
Breakfast Cereals & Pancake Mix	11	5	2	2	2	0.8	20%	47%	34%
Red Meats, Fresh/Chilled/Frozen	267	163	105	98	61	77	37%	60%	74%
Red Meats, Prepared/Preserved	7	4	9	5	4	9	62%	85%	93%
Poultry Meat	20	14	24	20	14	22	97%	99%	94%
Dairy Products (Excl. Cheese)	225	128	48	14	15	13	6%	11%	27%
Cheese	23	10	4	1	2	2	7%	24%	54%
Eggs & Products	5	3	2	0.5	0.3	0.2	10%	12%	15%
Fresh Fruit	289	177	121	176	158	116	61%	90%	96%
Fresh Vegetables	39	37	21	22	27	20	56%	73%	99%
Processed Fruit & Vegetables	143	67	74	75	58	66	53%	87%	89%
Fruit & Vegetable juices	24	10	7	8	7	6	32%	69%	81%
Tree Nuts	43	12	12	14	9	10	33%	78%	83%
Wine & Beer	91	40	34	23	20	19	25%	50%	55%
Nursery Products & Cut flowers	27	2	0.8	0.2	0.2	0.2	0.63%	10%	24%
Pet Food (Dog & Cat Food)	34	19	14	9	9	11	26%	47%	81%
Other Consumer-Oriented Products	509	276	173	98	129	79	19%	47%	46%
FISH & SEAFOOD PRODUCTS	651	211	128	44	28	32	7%	13%	25%
Salmon	36	15	15	0.7	1	2	2%	7%	10%
Surimi	19	6	6	4	6	5	22%	92%	71%
Crustaceans	310	102	19	17	10	11	6%	10%	56%
Groundfish & Flatfish	101	31	40	3	1	2	3%	3%	4%
Molluses	70	22	16			1			9%
Other Fishery Products	115	35	31	16	10	12	14%	28%	38%
AG PRODUCTS TOTAL	4,177	2,829	2,350	2,002	2,015	1,972	48%	71%	84%
AG FISH & FORESTRY TOTAL	5,702	3,468	2,643	2,127	2,110	2,090	37%	61%	79%

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office

Table C. Top 15 Suppliers of Consumer Foods

Taiwan Imports Consumer-Oriented AG Total
(US$1,000)

	2000	2001	2002
United States	577,290	529,549	464,505
France	422,444	49,752	53,826
Canada	N/A	N/A	39,542
Denmark	28,504	36,893	37,694
Singapore	26,940	21,853	24,504
Italy	16,148	20,038	17,621
United Kingdom	13,914	15,720	10,801
Hong Kong	10,736	9,034	10,716
Swltzerland	N/A	N/A	6,244
Turkey	N/A	N/A	2,914
Finland	1,945	2,088	2,593
Austria	220,512	217,101	1,978
Panama	N/A	N/A	1,368
Macau	N/A	N/A	1,321
Poland	N/A	N/A	1,082
Other	527,764	113,075	1,687
TOTAL	1,846,197	1,015,103	678,396

Source: United Nations Statistics Division

Table C. Top 15 Suppliers Edible Fishery Products

Taiwan Imports Fish & Seafood Products
(US$1,000)

	2000	2001	2002
United States	44,323	28,267	31,952
Norway	33,615	16,470	21,562
Singapore	20,181	16,499	20,173
Iceland	17,250	17,105	17,058
Canada	N/A	N/A	15,069
Denmark	18,399	13,325	14,670
Panama	N/A	N/A	2,593
Mauritius	N/A	N/A	2,299
United Kingdom	688	658	1,680
Turkey	N/A	N/A	497
Hong Kong	489	166	192
Fiji	N/A	N/A	153
France	361	411	151
Maldives Islands	N/A	N/A	76
Czech Republic	N/A	N/A	31
Other	515,994	117,657	44
TOTAL	651,300	210,558	128,200

Source: United Nations Statistics Division